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DAFTAR ISI

SHARIA GOVERNANCE AND PERFORMANCE OF ISLAMIC FINANCIAL INSTITUTIONS: FIRM SIZE AS MODERATING MODEL

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ABSTRACT: *The study looked at the relationship between the application model of the principles of governance Shari'ah with performance of Islamic financial Institutions in Riau moderated by firm size. In this study the performance of Islamic banking financial institutions measured by using Balanced Scorecard. From the results of hypothesis testing, this study shows that sharia governance capable of affecting the performance of Islamic financial institutions as evidenced by a coefficient of 5.880 with a significance level of 0.000 is much smaller than the value of α (0.05). This suggests that sharia governance capable of affecting the performance of Islamic financial institutions. In the regression test results, firm size can not strengthen the relationship between sharia governance on performance Islamic Financial Institutions. Evidenced by the coefficient t of -1.933 with a significance level of 0.071 is greater than the value of α (0.05). This means that more number of employees of company gives a signal that company is financially strong. However, the size of the company which is proxied by the number of employees may not be able to strengthen shariah governance and enhance corporate value, it gives a signal of agency problems. This needs to get the attention of Islamic banks.*

Keywords: *Banking, Sharia Institutions, and Governance Syariah.*

1. INTRODUCTION

Survival ability of Islamic banking in the era of crisis proves that Islamic banking is able to save most of the economic community. Islamic banking through the intermediation activities of the collection and distribution of funds and the provision of other financial services, based on the principles of sharia has a strategic role in improving the welfare of the people. It is also the appeal of many of the conventional bankers who then opened branch offices sharia.

During the year 2013, the Indonesian Islamic banking experience is one of the highest growth period, the market share of Islamic banking in the banking map achieve ± 4.8 per cent in October 2013, with the number of accounts in Islamic banking accounts achieve ± 12 million or 9.2 percent of the total national banking accounts as well as the number of branch network reached 2,925 offices. Especially Europe and America still overshadowed slowing growth, Bank Indonesia expects the Indonesian economy in the next year is still experiencing high growth in the range of 6.3% - 6.7%. Thus the expected impact of the economic crisis on Islamic banking growth rates tend to be minimal, especially with not many portfolio of Islamic banking assets in foreign currency or abroad. (Sharia Banking Outlook, 2013).

Evidence that Islamic Bank has a greater role in the intermediation function is also evident from the increase in Islamic banking in Indonesia from year to year than the general banking, banking intermediation function continues to perform well with FDR above 100%. Financing productive (working capital and investment) continues to increase beyond 70% of the total financing extended by the Islamic banking. Instead of consumer financing slowed along with the increase of productive financing. In the future, the possibility of corruption and irregularities in the bank Shariah is not impossible, although there is no Shariah Supervisory Board, as the perpetrators are not angels. Especially this time of Shariah banking more and more, then the bankers Shari'ah was growing much anyway. In connection with that the executives and bankers, even including the commissioner must be extra careful in managing the Islamic banking institutions are always rated as "holy", because it comes from the divine principle. It is necessary for the implementation of good corporate governance (GCG) in accordance with the learning of Islam.

The development of Islamic Banking which so greatly in recent years demanding the immediate implementation of the practices of Good Corporate Governance (GCG) in the management of banks in order to provide maximum protection to all interested parties in the stakeholders, especially the customer or depositor. Besides the implementation of GCG can help minimize the Islamic banks financing is not good quality, improve the accuracy of assessment of banks, infrastructure, quality of business decision-making, and has an early detection system for high-risk business areas, products, and services.

The Indonesian Institute for Corporate Governance (IICG), defines the concept of corporate governance as a set of mechanisms for directing and controlling an enterprise that runs its operations in accordance with the expectations of stakeholders (stakeholders). When compared with the conventional banks, the Shari'ah bankers supposed to be superior and lead in the implementation of GCG in banking institutions, considering Shariah banking institutions to bring religion into the name of the business organization. Strictly speaking, bankers Shari'ah must play its role as a pioneer in the GCG enforcement of banking institutions. If the bankers Shari'ah do irregularities and moral hazard, it not only has implications for the institution but also to the image of the Shari'ah. Although people know that it is the fault of certain elements. But people will quickly assess that sharia institutions only do moral hazard, and special of conventional institutions.

Problems that occur when the application of the principle of governance in Islamic Banking equated with the principle of governance in Conventional Banking. According Lewis and Algoud (2001) governance issues in Islamic banking was very different from conventional banking. This is caused by the Islamic banks have an obligation to comply with Sharia principles (Shari'ah complience) (Lewis and Algoud, 2001), the possibility of very high information asymmetry for Islamic banking (Archer and Kareem, 1997). Abdussalam Mahmoud Abu-Tapanjeh (2009) examined concerning the nature, application and comparison principles of governance (governance) Islamic company with the principles of corporate governance proposed by the OECD (The Organization for Economic Co-operation and Development) are conventional. The study concluded that the dimensions of the Islamic perspective that corporate governance has a broader horizon and can not be boxed roles and responsibilities, in which all actions and obligations under the jurisdiction of the divine law of Islam, but still applying the principles of OECD different issue and obligation

Nofianti, et.al (2012) explore and develop the principles of Good Corporate Governance (GCG) which can reflect governance Sharia , with reference to the leadership of the Prophet Muhammad and Khulafahul Ryashidin. Islam is far predates the birth of the GCG is become reference for good corporate governance in the world, there are some principles that are considered important for researchers in applying Good Corporate Governance Sharia . To implement GCG in Islamic banking, it is not enough just to governance principles set forth for conventional banks. There are several principles that should be attached to the sharia. In the next study, researchers (Nofianti, et.al: 2013) proved that there is a relationship between the application of the principles of the Shariah governance performance of Islamic financial institutions in Riau.

In this study the principles of sharia governance that has been observed in previous studies, the researchers tried to continue the research to include other factors such as firm size (the size of the company) as a moderating variable in Islamic financial institutions. Large companies supported by large capitalization requires good governance (good governance) to achieve good performance. Darmawati (2004) states that large companies basically have greater financial strength to support the performance, but on the other hand, the company faces a larger agency problems.

1.1. The Problem

Based on the above background, the problem can be formulated as follows:

1. Is there a influence sharia governance with the performance of Islamic financial institutions in the province of Riau?
2. Does firm size able to moderate between governance and performance sharia Islamic financial institutions in the province of Riau?

1.2. Objectives and Benefits Research

The objectives of this research are:

1. To analyze the influence of sharia governance with the performance of Islamic financial institutions in Riau.
2. To analyze apakah firm size able to moderate between sharia governance and Islamic financial institutions performance in Riau.

The benefits of this research are:

1. For Islamic financial institutions, can solve the problems faced related to the application of sharia governance.
2. As the material of science development, namely the integration of economics science conventional with Islamic science , especially regarding sharia governance.

2. Theoretical Framework And Development Of Hypotheses

Some of the principles that are considered important in implementing Sharia governance, and implementation in Islamic banking as follows: [1]. *Siddiq* (Honesty) is correct in his words and deeds. That the *Rasolullah* in words and deeds as stated in Surah An-Najm 4-5 "There is not that saying it (the Qur'an) according to the willingness and lust. His remarks were nothing but a revelation revealed to him ". [2]. *Amanah* (trust Fulfillment) means to really be trusted. If the matter submitted to it, undoubtedly believe that the matter will be carried out with the best. "I convey to you the messages of my Lord and I'm just giving you reliable advice." (Al-A'raf: 68. [3]. *Tabligh* (Transparency and Openness) means to convey. Nothing is hidden even if it offends. [4]. *Fathonah* (Intelligence) is smart in presenting, explaining, organize and manage something. [5]. *Tawazun* (balance) is balance in all things, and this is the character of *ahlusunnah-wal-jama'ah* who always taught by the Prophet Muhammad and his Companions. [6]. *Mas'uliyah* (Accountability) is a principle of leadership accountability. [7]. *Achlaq* (Morals and Integrity) is an action that encourages a person to act as well. [8]. *'Adalah* (Justice) is justice in attitude. Of the basic mechanisms of Shariah finance will be able to mewujudkankegiatan economy fairer and more transparent. [9]. *Hurriyah* (Independence and, Responsible Freedom) is an attitude that assumes that human beings are created by God and have a responsible freedom. [10]. *Ihsan* (Professional) is the perfection or the best, professional in performing their duties. [11]. *Wasathan* (Fairness) is the fairness in all things. [12]. *Ghirah* (spirit) is in defense of the true spirit. [13]. *Idarah* (Management) is able to manage all things well. [14]. *Khilafah* (Leadership) is leadership in Islam, able to lead overall. [15]. *Aqeedah* (Belief and Confidence) is the trust and confidence that is unshakable. [16]. *Ijabiyah* (Positive Thinking) is to think positive and do not assume something is not important. [17]. *Raqabah* (Supervision) is the principle that assumes that every action was being watched. [18]. *Qira'ah* And Ishlahyaitu learning organization and always make improvements). [19]. *Ascetic* (avoid worldliness) is to assume that the world is not everything but there is eternal afterlife. (Nofianti et al, 2012).

Must emergence of Shariah as a pioneer banker GCG than conventional enforcement, according Algaoud and Lewis (2009) because of the problems of governance in Islamic banking was very different from conventional banks. First, Islamic banks have an obligation to adhere to the principles of sharia (sharia compliance) in running the business. Therefore, Sharia

Supervisory Board (DPS) plays an important role in the governance structure of Islamic banking. Second, because of the potential for very high information asymmetry for Islamic banking agency theory, the problem becomes very relevant. This is related to issues of accountability and transparency of the level of customer funds and shareholders. Therefore, the problem of representation of investment account holders in good corporate governance mechanisms become a strategic issue that should also receive attention Islamic banks (Archer and Karim, 1997).

Risks faced by Islamic banking is credit risk (non asset-sharing, and asset systems for results), market risk (equity price risk, foreign exchange risk, commodity price risk, liquidity risk, operational risk, legal risk, reputation risk and other. Risk in islamic Banking is one of the factors that can encourage the implementation of corporate governance in islamic banks.

Abd Mahmoud Abu-Tapanjeh (2009) examined concerning the nature, application and comparison of corporate governance principles of Islam with the principles of corporate governance proposed by the conventional OECD. The study concluded that the dimensions of the Islamic perspective of corporate governance has a broader horizon and can not be boxed roles and responsibilities, in which all actions and obligations fall under the jurisdiction of the divine law of Islam but still applying the principles of the different OECD and liability issues. Zulkifli Hasan (2009) concluded that Sharia governance is unique when compared to conventional.

Aznan (2002) discusses the Models of Shariah Governance in some countries such as Malysia, Pakistan, UAE, Bahrain, Kuwait and Qatar. Maria Bhatti and M. Ishaq Bhatti (2010) proposed a model of Islamic Corporate Governance (ICG) that unite the goals of sharia law with the stakeholder model of corporate governance. It argues that this might be worth the great emphasis put sharia law on the property and contractual rights of Islamic finance. Then Setyani (2010) examined the government's policy on the implementation of Good Corporate Governance for Commercial Banks in the practice of Islamic banking in Indonesia and assess the implementation of good corporate governance for banks in the management of Islamic banking in Indonesia. Hutagalung (2004) proved that the application of the principles of good corporate governance have a significant impact on the financial performance of SOEs in Indonesia. In addition, the application of the principles of good corporate governance affects the internal and external sources of advantage of SOEs. In this study, Hutagalung using 63 SOEs as a sample and its financial performance seen from the growth rate of ROA (return on assets) of his.

Research Che Hat et al (2008) found that the application of good corporate governance has a significant influence on the performance of the company. By using a proxy sharia governance, Leny Nofianti et al (2013) may prove that there is a relationship between the application of sharia governance with the performance of Islamic financial institutions in Riau. Thus, the application of sharia governance increasingly owned by Islamic financial institutions, the performance can be improved. Then the hypothesis is:

H1: Sharia governance affect the performance of Islamic financial institutions in the province of Riau

Hesti (2010) and Uyun (2011) in his research found evidence that the size of the company significant positive effect on the company's financial performance. Companies with large assets will usually get more attention from the public. This will cause the company to be more careful in their financial reporting. The company is expected to always maintain the stability of their financial performance. Reporting good financial condition is certainly not necessarily can be done without going through the good performance of all the lines of the company. Large companies that have good governance will have a large capitalization so that the performance of Islamic financial institutions, the better. Then the hypothesis is:

H2: When the larger firm size will be able to moderate between governance and performance sharia Islamic financial institutions in the province of Riau

3. Reseach Method

3.1. Location Research and Design Research

This research was conducted at the Islamic banking institutions in Riau, both Islamic Banks (BUS) and Sharia Business Unit (UUS). Later this study was designed to gain an overview of the relationship between governance models with the performance of sharia Islamic financial institutions. The method used in this study is a survey method, the research took a sample of the population and using the questionnaire as a data collection tool that principal (Masri Singarimbun and Sofian Effendi, 1995).

3.2. Population and Sample

The population in this study are all Islamic financial institutions in Riau. Researchers chose the district contained the highest Islamic Banking Institutions in several areas in Riau, among others, the city of Pekanbaru, Kampar Regency, Bengkalis and Indragiri Hilir. Of the 35 questionnaires distributed in four selected districts, obtained 18 questionnaires were returned and can be processed. The names of the Institute of Islamic Banking in the Riau are as follows:

Table 1. Islamic Bank in Riau

1. PT Bank Syariah Mandiri
2. PT. Bank Syariah Muamalat Indonesia
3. PT Bank Syariah BNI
4. PT Bank Syariah BRI
5. PT. Bank Syariah Mega Indonesia

PT Bank Panin Syariah

7. PT Bank Syariah Bukopin
8. PT Bank Syariah Mandiri
9. PT BCA Syariah
10. PT. Bank Permata Syariah
11. BPRS Sari Madu
12. BMT Bina Swadaya
13. Koperasi Syariah BMT Al-Ittihad
14. Bank Syariah Berkah
15. KKJS BMT UGT Sidogiri Kampar

This research is the primary data and secondary data. Primary data obtained by distributing a questionnaire or questionnaires to respondents, while secondary data derived from reports of Indonesian banks

3.3. Method Of Collecting Data

This research is the primary data and secondary data. Primary data obtained by distributing a questionnaire or questionnaires to respondents, while secondary data derived from reports of Indonesian banks

3.4. Operationalization of Variables

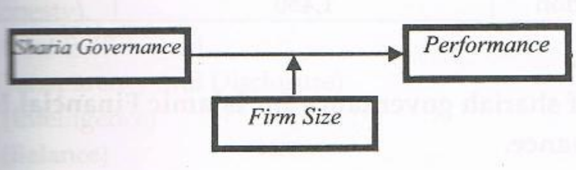
The variables measured in this study are as follows:

I. Independent Variables (X), namely: Good Corporate Governance (GCG) Sharia. GCG Sharia is a corporate governance that apply the principles of sharia. Variable Sharia GCG is measured with an instrument developed by nofianti et al (2011). with dimensions: Siddiq (honesty), Amanah (trust Fulfillment), Tabliqh (Transparency and Openness), Fathonah (intelligence), tawazun (balance), Mas'uliyah (accountability), Akhlak (Morals and Integrity), 'Adalah (Justice), Hurriyah (Responsible Independence and Freedom), Ihsan (Professional), Wasathan (Fairness), ghirah (spirit), Idarah (Management), the Khilafah (Leadership), Aqeedah (belief and Confidence), Ijabiyah (Positive Thinking), Raqabah (Supervision), [illegible] and Ishlah (The Organization of Learning and Always Keep Repairs) and zuhud (avoid worldliness)

II. Dependent Variable (Y), the performance of Islamic financial institutions. Performance of Islamic financial institutions in this study was measured with instruments used by Rohm (2004), later developed by Dikdik Tandika (2009) which has been tested for validity and reliability. Furthermore, the instrument adapted to the real conditions in the Islamic financial institutions. Organizational performance measurement used dlaam research is the balanced scorecard approach. As judged from four perspectives, namely: Financial, Customers and stakeholders, Internal bussiness process, and Employess and organization capacity

III. Moderation variable, is a variable that is strengthen or weaken the independent variable on the dependent variable. In this study moderation variable is the size of the company Islamic financial institutions, as seen from the proxy "number of employees"

Figure 1. Research Model



III. Data Analysis Techniques

The data analysis involved testing instrument (validity and reliabitas), testing the data (classical assumption), and hypothesis testing is done with

SPSS for Windows. Testing the hypothesis of this study is done by multiple regression analysis with the following models:

Y = a + b1 X1+ b2 X2 + b3 X1*X2 + e (1)

Specification

Y : Performance Islamic Financial Institutions

X1 : *Sharia Governance (GGG Sharia)*

X2 : *Firm Size*

4. Results And Discussion

Based on the data test , using the first, validity and reliability, then the all test can be met. Testing reliability was done by using Cronbach alpha. A reliable instrument when alpha reliability coefficient of (a)> 0.50 (Ghozali, 2005). Reliability test results above 0.50 is for Sharia governance variables (X1) with a Cronbach alpha 0.938 and for variables Islamic Financial Institutions Performance (Y) with Cronbach alpha 0.951. Furthermore, the validity test is valid if item of statement on the variables studied is if r count > r table. In this research, all item of statement is valid. Secondly, based on the classical assumption, in which the criteria in this test can be met. (see table 2).

Table 2

Classical Assumption Test

Classical Assumption Test	Governance sharia	Moderating firm size
Data Normalitas	0,850	0,946
Heterocedastisity	0,734	0,170
Multicollinearity	Tolenrance=1,000, VIF=1,000	Tolenrance=1,000, VIF=1,000
Autocorrelation	1,450	1,635

4.1. Effect of shariah governance for Islamic Financial Institutions Performance.

The results of this study indicate that sharia governance capable of affecting the performance of Islamic financial institutions in the province of Riau as evidenced by a coefficient t of 5.880 (t) with a significance level of 0.000 is much smaller than the value of α (0.05). This suggests that sharia governance capable of affecting the performance of Islamic financial institutions. Therefore, hypothesis 1 is acceptable.

These results are consistent with theories as well as the results of previous research which states that the higher the implementation of good corporate governance,more increase the company's performance. Research Labelle (2002) mentions corporate governance is positively related to performance of the company in the eyes of investors.

The results of this study confirm that the application of Shariah governance in Islamic banking is more directed to Islamic principles, and in contrast to the application of governance in conventional banking. According Lewis and Algoud (1999) governance issues in Islamic banking was very different from conventional banking. And the implementation of corporate governance of sharia (Good Governance Sharia) will improve the performance of the sharia company.

Sharia governance is a system that regulates and controls the manager in order to provide and enhance the value of Islamic banking financial institutions to shareholders and stakeholders. The application of sharia governance practices can help investors or stakeholders to know that the manager has acted to manage Islamic banking as it should be. Sharia governance can also provide a good signal to investors and companies with a higher value.

By using sharia governance dimension, the more Islamic banking can describe the state of the Shariah in Islamic banking management. It can be seen and analyzed from each dimension of the sharia governance, as follows:

1. Siddiq (Honesty).
2. Amanah (trust Fulfillment).
3. Tabligh (Transparency and Disclosure).
4. Fathonah (Intelligence)
5. Tawazun (Balance)
6. Mas'uliyah (Accountability)
7. Akhlaq (Morals and Integrity)
8. 'Adalah (Justice)
9. Hurriyah (Independence and Freedom Responsible)
10. Ihsan (Professional)
11. Wasathan (Fairness)

12. Ghirah (spirit)
13. Idarah (Management)
14. Khilafah (Leadership)
15. Aqeedah (Belief and Confidence)
16. Ijabiyah (Positive Thinking)
17. Raqabah (Supervision),
18. Qira'ah and Ishlah (The Organization of Learning and Always Keep Repairs)
19. Zuhud (avoid worldliness)

4.2. Effect of shariah governance for sharia financial institutions performance moderated by firm size

This study predicts the influence of variables Sharia governance (independent) to variable of performance Financial Islamic Institutions (dependent), moderated by firm size. There are a variety of proxy which is usually used to represent the size of the company, ie the number of employees, total assets, sales, and market capitalization (Dini and Djoko, 2012). In this study, firm size is proxied by the number of employees. The size of the firm (Firm size) is important in the financial reporting process. Darmawati (2004) states that large companies basically have greater financial strength to support the performance, but on the other hand, the company faces a larger agency problems.

In the regression test results, firm size can not strengthen the relationship between sharia governance on performance Islamic Financial Institutions. Evidenced by the coefficient t of -1.933 with a significance level of 0.071 is greater than the value of α (0.05). Simultaneous test results (F) obtained a value of 0.071 is greater than the value of α (0.05). Value determinant coefficient (R 2) of the moderating variables on the relationship between firm size and performance of Shariah governance of Islamic banks amounted = 0.189 or 18.9%.

Thus, moderating variables Firm size is not able to strengthen or affect the relationship between the independent variables and the dependent variable either partially or simultaneously. Meanwhile Hesti (2010) and Uyun (2011) states that the size Firm significant positive effect on financial performance. Therefore, hypothesis 2 can not be accepted.

Based on the results, in which the firm size variable is proxied by the number of employees can not moderate the relationship between the shariah governance and performance of Islamic banks. This means that the more the number of employees of the company, gives a signal that company has strong financially. However, the size of the company which is proxied by the number of employees may not be able to strengthen the Shariah governance and enhance corporate value, it gives a signal of agency problems. This is reinforced by the value of the determinant coefficient (R 2) of 18.9%. Meaning: the moderating variable gives contributes to the relationship between the Shariah governance and performance of Islamic banks amounted 18.9%, and 81.1% the remaining is influenced by other variables.

The agency problems that could occur in banking is if the bankers (employees) do fraud to sharia bank and moral hazard done with structured and many employees involved to meet the interests of a particular party, it not only has implications for the governance of the institution but also to the bank's performance and image of Shari'ah. Although people know that it is the fault of certain elements, but people quickly assess that sharia institutions do moral hazard, especially institutions conventional . This needs to get the attention of Islamic banks.

5. Conclusion

From the results of hypothesis testing, this study shows that sharia governance capable of affecting the performance of Islamic financial institutions in the province of Riau as evidenced by a coefficient of 5.880 with a significance level of 0.000 is much smaller than the value of α (0.05). This suggests that sharia governance capable of affecting the performance of Islamic financial institutions. Therefore, hypothesis 1 can be accepted.

In the regression test results, firm size can not strengthen the relationship between sharia governance on performance Islamic Financial Institutions. Evidenced by the coefficient t of -1.933 with a significance level of 0.071 is greater than the value of α (0.05). Therefore, hypothesis 2 can not be accepted. This means that the more the number of employees of the company gives a signal that the company is financially strong. However, the size of the company which is proxied by the number of employees may not be able to strengthen the shariah governance and enhance corporate value, it gives a signal of agency problems. This needs to get the attention of Islamic banks.

6. Recomendation

Based on the research results, the greater the banking company which indicated by the number of employees that much, then the greater the problems faced by the company, especially with regard to the behavior of people who work at the company. It is necessary to evaluate banking company and assessment of employees, because how good corporate governance system that was built when performed by people who have the deviant behavior in the long term will affect the performance and image of the bank, especially banks Islamic.

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